

**THE OFFICE OF REGULATORY STAFF  
DIRECT TESTIMONY AND EXHIBITS  
OF  
ROY H. BARNETTE**



**DOCKET NO. 2006-4-G**

**Annual Review of Purchased Gas Adjustment  
and Gas Purchasing Policies of Piedmont Natural  
Gas Company, Inc.**

1   **Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS**  
2   **AND OCCUPATION.**

3   A. My name is Roy H. Barnette. My business address is 1441  
4   Main Street, Suite 300, Columbia, South Carolina, 29201.  
5   I am employed by the Office of Regulatory Staff as an  
6   Auditor.

7   **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8   A. Following a six year enlistment in the United States  
9   Marine Corps, I received a B. S. Degree in Business  
10   Administration with a major in Accounting from the  
11   University of South Carolina in 1968. From 1968 to 1971  
12   I was employed with S. D. Leidesdorf and Company, a  
13   national CPA firm in Charlotte, North Carolina. In 1972  
14   I entered the private business sector. My most recent  
15   position was with Bagnal Builders Supply Co. Inc., here  
16   in Columbia, where I served as Senior Vice President and  
17   Chief Financial Officer from 1972 until September 1999.  
18   From September 1999 until December 2004, I was a member  
19   of the Audit staff of the South Carolina Public Service  
20   Commission where I participated in cases involving  
21   natural gas, water and wastewater companies. In January,  
22   2005, I began my employment with the Office of  
23   Regulatory Staff ("ORS").

24   **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING PIEDMONT**  
25   **NATURAL GAS COMPANY, INC., FILED UNDER DOCKET**  
26   **NO. 2006-4-G?**

1 A. The purpose of my testimony is to set forth findings  
2 resulting from the ORS's review of the Piedmont Natural  
3 Gas Company, Inc. ("Company" or "Piedmont") deferred  
4 account, #253.04 for the review period of April 1, 2005  
5 through March 31, 2006.

6 **Q. IN CONNECTION WITH YOUR TESTIMONY, DID YOU PREPARE OR**  
7 **CAUSE TO BE PREPARED ANY EXHIBITS?**

8 A. Yes, the Audit Staff has prepared Audit Exhibits RHB-1,  
9 RHB-2 and RHB-3 in connection with this testimony.

10 **Q. ON WHAT AUTHORITY DOES THE ORS MONITOR THE ACTIVITY IN**  
11 **PIEDMONT'S DEFERRED ACCOUNT, #253.04?**

12 A. In Docket No. 83-126-G and 86-217-G, Order No. 88-294,  
13 the Public Service Commission ("Commission") found that:

14 (1) A true-up for differences between billed and filed  
15 rates is appropriate and necessary to assure that  
16 Piedmont's customers pay no more than Piedmont's  
17 actual cost of gas.

18 (2) A true-up of demand charges for changes in sales  
19 volumes is appropriate and necessary to assure that  
20 Piedmont's customers pay no more than Piedmont's  
21 actual cost of gas.

22 (3) The Company is to maintain an account reflecting  
23 its gas costs each month, the amount of gas costs  
24 recovered each month, and amounts deferred from  
25 month to month. The Company was also required to

1 file with the Commission, a report on a monthly  
2 basis showing the status of this deferred account.

3 (4) Additionally, with the issuance of Order No. 2002-  
4 223 dated March 26, 2002 in Docket No. 2001-410-G,  
5 the Company was required to file regular reports on  
6 the status of the hedging program and the results  
7 of its hedging activities.

8 **Q. HAS ORS CONDUCTED THE COMMISSION REQUIRED AUDIT OF**  
9 **THE COMPANY'S DEFERRED ACCOUNT?**

10 **A.** Yes. ORS has reviewed the monthly filings  
11 made by the Company and the activities included in  
12 Deferred Account, #253.04, Inventory Accounts #151.10,  
13 #151.25, #151.35, #151.40, #151.60, #151.70, #165.00.88,  
14 #165.00.20, #165.10 and Account, # 191.01 (Deferred  
15 Account-Hedging Program), for the period April 2005  
16 through March 2006 as summarized on Audit Exhibits RHB-  
17 1, RHB-2 and RHB-3.

18 **Q. PLEASE EXPLAIN THE FORMAT USED IN AUDIT EXHIBIT RHB-1.**

19 **A.** Audit Exhibit RHB-1's format is as follows:

20 **Billed vs. Filed Rates**- These amounts represent the  
21 difference in the Company's actual gas costs on a  
22 monthly basis as compared to the benchmark cost of gas  
23 included in the Company's most recent GCRM (Gas Cost  
24 Recovery Mechanism) on file with the Commission.  
25 Effective April 1, 2005, the Company filed GCRM #113  
26 with the Commission which increased the benchmark cost

1 of gas from \$6.00 to \$7.00. Effective September 1, 2005,  
2 the Company filed GCRM #114 with the Commission which  
3 increased the benchmark from \$7.00 to \$8.00. Effective  
4 October 1, 2005, the Company filed GCRM #115 with the  
5 Commission which increased the benchmark cost of gas  
6 from \$8.00 to \$11.00. Effective November 1, 2005, the  
7 Company filed GCRM #116 with the Commission which  
8 increased the benchmark cost of gas from \$11.00 to  
9 \$13.00. Effective January 1, 2006, the Company filed  
10 GCRM #117 with the Commission which decreased the  
11 benchmark cost of gas from \$13.00 to \$11.00. Effective  
12 February 1, 2006, the Company filed GCRM #118 with the  
13 Commission which decreased the benchmark cost of gas  
14 from \$11.00 to \$8.50. On a total company basis, actual  
15 gas costs are computed and compared to the benchmark  
16 cost and any difference is allocated to South Carolina  
17 operations based on the current month's sales  
18 percentage. Billed vs. Filed rates for the period under  
19 review increased the under-collection by \$2,624,378.

20 **Proration Adjustments** - Proration adjustments are  
21 adjustments made as a result of cycle billing and  
22 necessitated as a result of the filings of GCRM #113  
23 effective April 1, 2005, GCRM #114 effective September  
24 1, 2005, GCRM #115 effective October 1, 2005, GCRM #116  
25 effective November 1, 2005, GCRM #117 effective January  
26 1, 2006 and GCRM #118 effective February 1, 2006. The

1 total Proration Adjustments for the period increased the  
2 under-collection by \$1,174,540.

3 **Demand True-up** - These amounts represent the over or  
4 under-collection of Demand Charges incurred by the  
5 Company as compared to Demand Charges billed and  
6 collected monthly from customers. Total Demand Charges  
7 incurred are computed monthly and allocated to South  
8 Carolina operations based on the Design Day Factor as  
9 approved by the Commission in Order No. 2002-761 dated  
10 November 1, 2002, approving new rates and charges issued  
11 in Docket No. 2002-63-G. Effective October 2003, the  
12 Design Day Factor for demand allocation to South  
13 Carolina operations changed from 22.3% to 15.81% due to  
14 the acquisition of North Carolina Natural Gas Co.  
15 Permission was granted by the Commission to account for  
16 the change in Docket No. 2003-251-G, Order No. 2003-588  
17 (Order granting interim accounting treatment) dated  
18 October 1, 2003. The methodology for allocation of  
19 Demand Costs remains the same as approved in Order No.  
20 2002-761. Effective November, 2005, the Design Day  
21 Factor for demand allocation to South Carolina  
22 operations changed from the previously approved 15.81%  
23 to 16.16% resulting from the Commission's approval of  
24 the Company's election to participate in the Rate  
25 Stabilization ("RSA") program. Total Demand True-up for

1 the twelve months ended March 31, 2006 increased the  
2 under-collection by \$2,274,461.

3 **Negotiated Losses** - In competition with alternate fuels,  
4 the Company's GCRM (Gas Cost Recovery Mechanism) allows  
5 it to maintain its industrial load by selling gas at  
6 less than the approved tariff resulting in margin  
7 losses. These Negotiated Losses for the twelve months  
8 ended March 31, 2005 increased the under-collection by  
9 \$1,346,169.

10 **Secondary Market Sharing** - Effective with new rates  
11 approved in Docket No. 2002-63-G, Order No. 2002-761  
12 dated November 1, 2002, the Company now credits 75% of  
13 the margin from off-system sales and from capacity  
14 release transactions to the deferred account #253.04.  
15 The remaining balance of these margins is retained by  
16 the Company. Order No. 2002-761 also provided that  
17 capacity release credits and off-system sales would be  
18 allocated to South Carolina using the same design day  
19 methodology as approved for fixed demand costs. Shared  
20 margins and Capacity Release Credits for the review  
21 period reduced the under-collection by \$3,588,050. It  
22 should be noted that in compliance with Docket No. 95-  
23 160-G, Order No. 95-1461 dated August 22, 1995, the  
24 Company is reporting Capacity Release activity as  
25 required by the Commission. These Capacity Release  
26 Credits totaling \$1,682,253 are included in the

1       \$3,588,050, above, as disclosed in Footnote 1 to Audit  
2       Exhibit RHB-1.

3       **Weather Normalization** - In compliance with Docket No.  
4       95-715-G, Order No. 95-1649, dated November 7, 1995, the  
5       Company began charging Account #253.04 for Weather  
6       Normalization effective for the winter heating season of  
7       November 1, 1996 through March 31, 1997. Prior to that  
8       time, the Company had maintained a separate balance for  
9       Weather Normalization in Account #253.09. The Weather  
10      Normalization Adjustment is designed to increase or  
11      decrease the margin component of the rate based on a  
12      comparison of actual weather conditions, during the  
13      review period, to the normal weather conditions.  
14      Weather Normalization adjustments for the current review  
15      period increased the under-collection by \$2,540,249 as a  
16      result of warmer than normal weather for the 2005-2006  
17      heating season.

18      **Accrued Interest** - The Company accrued monthly interest  
19      at the rate of 9.25% on the average outstanding balance  
20      for each month of the review period. In Docket No. 98-  
21      004-G, Order No. 98-618 dated August 11, 1998, the  
22      Commission ruled that the actual earned overall rate of  
23      return should be utilized in computing interest on the  
24      deferred account balance. In Docket No. 2000-004-G,  
25      Order No. 2000-707 dated August 25, 2000, the Commission  
26      found that interest on the deferred account should be



1       limited to the lower of the authorized overall rate of  
2       return or the actual earned overall return. However,  
3       the Company cannot compute the actual rate of return  
4       until such return is known for the review period. Since  
5       interest is accrued monthly, an annual adjustment is  
6       required to restate the accruals at the lower of the  
7       actual earned overall rate of return or the approved  
8       overall rate of return. For the twelve months ended  
9       March 31, 2006, the actual earned overall Rate of Return  
10      was calculated at 7.44%. Therefore, an adjustment is  
11      required to restate the interest at the actual earned  
12      overall Rate of Return. This adjustment totaling  
13      \$292,851 resulted in the interest for the period being  
14      recalculated as a \$927,616 increase in the under-  
15      collection.

16      **Annual Line Loss Adjustment** - The Annual Line Loss  
17      Adjustment reflects a true-up of calculated "Unaccounted  
18      For" and "Company Use" fuels, charged to the consumers,  
19      as compared with the actual losses experienced during  
20      the review period. This is an annual adjustment required  
21      by the Company's Gas Cost Recovery Mechanism and for the  
22      review period reduced the under-collection by \$632,670.

23      **Supplier Refunds** - During the months of January and  
24      March 2006, the Company received Supplier Refunds of  
25      \$78,030 and \$45,994, respectively, from Transco. These

1        refunds were applied to the deferred account to reduce  
2        the under-collection in the total amount of \$124,024.

3        **Hedging Activity Transfer** - During the current review  
4        period, the Company did not transfer the previous review  
5        period (April 2004 - March 2005) balance of (\$598,053)  
6        from the Deferred Account-Hedging Program, #191.01, to  
7        the Deferred Account, #253.04, a practice followed as a  
8        result of previous PGA reviews. In Docket No. 2005-4-G,  
9        Order No. 2005-410, dated August 15, 2005, the  
10       Commission ordered and approved the settlement agreement  
11       but did not specifically direct the transfer of the  
12       balance from account # 191.01 to #253.04.

13    **Q. HAS PIEDMONT PROPOSED INCLUDING AN ADDITIONAL COMPONENT**  
14       **IN ITS DEFERRED ACCOUNT BEGINNING WITH THE ANNUAL PERIOD**  
15       **WHICH BEGINS NOVEMBER 2006?**

16    A. Yes. The Company has proposed including the cost of gas  
17       portion of uncollectible accounts in the deferred  
18       account #253.04.

19    **Q. PLEASE DESCRIBE THE NATURE OF THE CHANGE PROPOSED BY**  
20       **PIEDMONT.**

21    A. Under its existing accounting methods, Piedmont includes  
22       an estimate of bad debt expense, in its RSA filing,  
23       equal to the average uncollectible accounts over the  
24       most recently ended three year period. Under its  
25       proposal in this docket, effective with the annual  
26       period beginning in November 2006, Piedmont seeks to

1 include the actual commodity cost of gas associated with  
2 uncollectible accounts expense in the PGA filing. Under  
3 this revised methodology, the commodity cost of gas  
4 portion of uncollectible accounts will become a  
5 component of the deferred account #253.04. The balance  
6 of the uncollectible accounts expensed, including the  
7 company's margin, will be recovered through their RSA  
8 filing.

9 **Q. DO YOU SUPPORT THE COMPANY'S PROPOSED CHANGE TO THE**  
10 **DEFERRED ACCOUNT?**

11 A. Yes. The proposed change will allow the Company to  
12 recover actual expenses rather than estimates and will  
13 more accurately match these expenses to the revenues  
14 from the same period.

15 **Q. WHAT IS INCLUDED ON AUDIT EXHIBIT RHB-2?**

16 A. During the PGA review, the Company provided ORS with  
17 detailed inventory calculations of its underground and  
18 liquefied natural gas (LNG) storage for each of the  
19 storage facilities. ORS accumulated the various  
20 inventory levels by storage location and in total and  
21 includes them in Audit Exhibit RHB-2, Pages 1 through 6,  
22 for Commission consideration.

23 The Company has contracted with five underground storage  
24 facilities. Four of these facilities are on the Transco  
25 System, including General Storage Service (GSS) located  
26 in Pennsylvania, Washington Storage Service (WSS)

1 located in Louisiana, Eminence Storage Service (ESS)  
2 located in Mississippi, and Hattiesburg Storage located  
3 in Hattiesburg, Mississippi. The fifth underground  
4 facility is owned by Columbia Gas Transmission Company  
5 and operated by Columbia Gas Storage, a Firm Storage  
6 Service (FSS), with storage facilities in Pennsylvania,  
7 Virginia, and West Virginia.

8 Audit Exhibit RHB-2, pages 1 through 3, details the  
9 inventory activities of these underground facilities.  
10 The inventory located in the five underground facilities  
11 at the beginning of the review period totaled 7,671,453  
12 dekatherms at a total cost of \$43,955,174 or a weighted  
13 average cost of \$5.7297 per dekatherm. The net inventory  
14 increase during the period, including injections,  
15 withdrawals and other related activities resulted in an  
16 ending inventory balance for these five facilities of  
17 8,462,437 dekatherms at a total cost of \$66,810,612, or  
18 a weighted average cost of \$7.8950 per dekatherm.

19 Audit Exhibit RHB-2, Pages 4 through 5, details the  
20 inventories of the various LNG locations, including Pine  
21 Needle. Pine Needle is an LNG facility located in  
22 Guilford County, North Carolina and is jointly owned by  
23 Piedmont, Transco and several other utilities/investors.  
24 Piedmont's ownership portion is 35%. Inventory is also  
25 stored at the LNG facility located near Charlotte, North  
26 Carolina and at LNG-NCNG located at Four Oaks, North

1 Carolina. Piedmont's LNG inventory located in these  
2 facilities at the beginning of the review period totaled  
3 1,714,531 dekatherms at a total cost of \$10,312,508 or a  
4 weighted cost of \$6.0148 per dekatherm.

5 As shown in these schedules, the Company included  
6 Adjustments to Tank Levels in the LNG and LNG - NCNG  
7 inventory schedules. Prior to the due date of the filing  
8 of this testimony, the Company had not provided  
9 sufficient documentation or explanation for these  
10 adjustments to support ORS forming an opinion as to  
11 their propriety or accuracy.

12 The adjustments to the LNG inventory reflect an increase  
13 of 13,867 dekatherms in May 2005 and a reduction of  
14 24,716 dekatherms in August 2005 or a net decrease for  
15 the review period of 10,849 dekatherms. Since no  
16 corresponding dollar values were assigned to these  
17 adjustments, the resulting effect is an increase to the  
18 weighted average cost in the ending inventory. The  
19 adjustment to the LNG-NCNG inventory level occurred\_in  
20 August of 2005 and was an increase to the tank level of  
21 125,246 dekatherms. Since no corresponding dollar value  
22 was assigned to this adjustment, the resulting effect is  
23 a decrease to the weighted average cost in the ending  
24 inventory.

25 The net inventory increase during the period, including  
26 these adjustments, injections, withdrawals and other

1 related activities resulted in an ending inventory  
2 balance for the LNG facilities of 4,016,149 dekatherms  
3 at a total cost of \$30,963,818, or a weighted average  
4 cost of \$7.7098 per dekatherm.

5 Audit Exhibit RHB-2, Page 6 of 6, details the Company's  
6 Line Pack - NCNG inventory. At the beginning of the  
7 review period the Line Pack inventory consisted of  
8 195,085 dekatherms at a total cost of \$1,301,467, or a  
9 weighted average cost of \$6.6713 per dekatherm. During  
10 the period April 2005 through October 2005, the Company  
11 recorded injections and withdrawals, resulting in a Line  
12 Pack inventory at October 31, 2005 of 181,075 dekatherms  
13 at a total cost of \$1,875,918 or a weighted average cost  
14 of \$10.3599 per dekatherm. Beginning in November 2005,  
15 the Company discontinued recording injections or  
16 withdrawals into this account and continues to maintain  
17 the October 2005 levels on the Company books.

18 Total storage inventory at the end of the review period,  
19 including Underground, LNG, and Line Pack consisted of  
20 12,659,661 dekatherms at a total cost of \$99,650,348 or  
21 a weighted average cost of \$7.8715 per dekatherm.

22 **Q. WHAT IS INCLUDED IN AUDIT EXHIBIT RHB-3, RISK**  
23 **MANAGEMENT-HEDGING PROGRAM?**

24 **A.** Audit Exhibit RHB-3 details the results of the Company's  
25 hedging program for the period under review. These

1 results are reflected in gains or losses, on a monthly  
2 basis, net of brokerage fees and commissions, resulting  
3 from the purchase of options to buy gas futures  
4 contracts (Call Options) and the purchase of options to  
5 sell gas futures contracts (Put Options). The Company  
6 purchased these Call and Put options at various strike  
7 prices. The strike price is the specified price at  
8 which a gas futures contract could be bought (Call  
9 Option) or sold (Put Option) if the options were  
10 exercised. During the review period the Company  
11 purchased a net of 1,809 Call or Put Option Contracts.  
12 The purchases and/or sales of these options were  
13 verified by tracing these transactions to the broker  
14 statements in detail. The purchase and sale of options  
15 for the review period resulted in a net gain, including  
16 fees, of \$1,756,006. As indicated under the caption,  
17 "Hedging Activity Transfer" on Exhibit RHB-1, the  
18 Company did not transfer the prior year hedging loss of  
19 \$598,053 to the Deferred Account, #253.04. As a result,  
20 that amount is carried forward on Audit Exhibit RHB-3  
21 and offset against current year gains. The net  
22 cumulative amount available for transfer for the two  
23 year, April 2004 - March 2006 is a net gain, or

1 reduction to Cost of Gas of \$1,157,953 as shown on  
2 Exhibit RHB-1.

3 **Q. WHY DID THE COMPANY NOT TRANSFER THE HEDGING LOSSES FROM**  
4 **THE APRIL 2004 THROUGH MARCH 2005 REVIEW PERIOD TO THE**  
5 **DEFERRED ACCOUNT?**

6 A. In response to ORS' inquiry, the Company responded that  
7 the PSC had not authorized such a transfer. Our review  
8 of Order No. 2005-410 issued in Docket 2005-4-G confirms  
9 that response.

10 **Q. DOES ORS HAVE A RECOMMENDED PROCEDURE FOR TRANSFERING**  
11 **HEDGING BALANCES TO THE DEFERRED ACCOUNT?**

12 A. ORS recommends that the Company's PGA be modified to add  
13 hedging activity results to the deferred account,  
14 #253.04, on a monthly basis. This change will eliminate  
15 the need for a specific annual order to transfer the  
16 hedging gains or losses to the deferred account and will  
17 better reflect the true deferred balance on a monthly  
18 basis.

19 **Q. WHAT ARE ORS'S FINDINGS WITH RESPECT TO ACCOUNT #253.04?**

20 A. ORS analyzed the balance of (\$15,133,277) included in  
21 Account #253.04 at March 31, 2006, as shown in company  
22 witness Boggs' testimony and has adjusted that amount  
23 as follows:

24 (1) ORS adjusted the December 2005 Billed/Filed  
25 adjustment from \$5,677,729 to \$5,685,605 to correct



1           the off-system sales used in the calculation. This  
2           adjustment results in a reduction to the under-  
3           collect for the month of December 2005 in the  
4           amount of \$7,876. The Company agrees with this  
5           adjustment and has posted it to its books and  
6           records.

7           (2) ORS adjusted the January 2006 Billed/Filed  
8           adjustment from (\$1,097,707) to (\$1,085,654) to  
9           correct the off-system sales used in the  
10          calculation. This adjustment resulted in a  
11          reduction of the under-collection for the month of  
12          January 2006 in the amount of \$12,053. The Company  
13          agrees with this adjustment and has posted it to  
14          its books and records.

15          (3) ORS adjusted the April 2005, Proration Adjustment  
16          from \$288,805 to \$278,682 to correct the dekatherms  
17          used in this calculation. This adjustment resulted  
18          in an increase to the under-collection for the  
19          month of April 2005 in the amount of \$10,123. The  
20          Company agrees with this adjustment and has posted  
21          it to its books and records.

22          (4) ORS adjusted the September 2005, Proration  
23          Adjustment from (\$14,651) to (\$82,656) to correct  
24          the dekatherms used in this calculation. This  
25          adjustment resulted in an increase to the under-  
26          collection for the month of September 2005 in the

1 amount of \$68,005. The Company agrees with this  
2 adjustment and has posted it to its books and  
3 records.

4 (5) ORS adjusted the October 2005, Proration Adjustment  
5 from (\$318,809) to (\$325,328) to correct the  
6 dekatherms used in this calculation. This  
7 adjustment resulted in an increase to the under-  
8 collection for the month of October 2005 in the  
9 amount of \$6,519. The Company agrees with this  
10 adjustment and has posted it to its books and  
11 records.

12 (6) ORS adjusted the November 2005, Proration  
13 Adjustment from \$9,299 to \$66,541 to correct the  
14 dekatherms used in this calculation. This  
15 adjustment resulted in a decrease to the under-  
16 collection for the month of November 2005 in the  
17 amount of \$57,242. The Company agrees with this  
18 adjustment and has posted it to its books and  
19 records.

20 (7) ORS adjusted the April 2005, Negotiated Loss  
21 Adjustment from (\$19,905) to (\$38,819) to correct  
22 the Negotiated Loss amount used in this  
23 calculation. The Company erroneously used Division  
24 091 losses instead of the total Negotiated Losses  
25 for the month. This adjustment resulted in an  
26 increase to the under-collection for the month of

1 April 2005 in the amount of \$18,913. The Company  
2 agrees with this adjustment and has posted it to  
3 its books and records.

4 (8) ORS adjusted the January 2006, Secondary Market  
5 Sharing Adjustment from (\$303,288) to (\$296,085) to  
6 correct the dekatherms used in this calculation.  
7 This adjustment resulted in an increase to the  
8 under-collection for the month of October 2005 in  
9 the amount of \$7,203. The Company agrees with this  
10 adjustment and has posted it to its books and  
11 records.

12 (9) During the review period, the Company accrued  
13 interest into the Deferred Account at the rate of  
14 9.25%. ORS adjusted Interest Expense to reflect  
15 interest for the review period at the Actual Earned  
16 Overall Rate of Return of 7.44% in accordance with  
17 Docket No. 2000-004-G, Order No. 2000-707 dated  
18 August 25, 2000, in which the Commission found that  
19 interest on the deferred account be limited to the  
20 lower of the authorized\_overall rate of return or  
21 the actual earned overall return. However, the  
22 Company cannot compute the interest until the  
23 actual rate of return is known for the review  
24 period. Since interest is accrued monthly, an  
25 annual adjustment is required to restate the  
26 accruals at the lower of the actual earned rate of

1           return or the approved overall rate of return.  
2           Including ORS adjustment (1) through (8) above,  
3           this adjustment resulted in a reduction to the  
4           interest accrued from (\$1,220,467) to (\$927,616).  
5           This adjustment resulted in a decrease in the  
6           under-collection in the amount of \$292,851.

(10) The net effect of the above adjustments is a decrease in the under-collection at March 31, 2006 of \$259,259, and detailed as follows:

End. Bal. - 3/31/06 per Company	(\$15,133,277)
Less: Billed/Filed Adj.- Jan. 2006	12,053
Proration Adj.- Nov. 2005	57,242
Billed/Filed Adj.- Dec. 2005	7,876
Interest Adjustment	<u>292,851</u>
Sub-total	(\$14,763,255)
Add: Negotiated Loss Adj. - Apr.2005	(\$18,913)
Proration Adj. - Apr. 2005	(\$10,123)
Proration Adj. - Sept. 2005	(68,005)
Proration Adj. - Oct. 2005	(6,519)
Secondary Mkt. Sharing Adj. - Jan. 2006	<u>(7,203)</u>
Adj.Bal. 3/31/06 (See Audit Exh.RHB-1)	<u>(\$14,874,018)</u>

Based on known and tested adjustments, the adjusted balance in the deferred account at March 31, 2006, is an under-collection of \$14,874,018, before inclusion of the net hedging activity. Including the effect of hedging activity for the current and prior year, a net gain of \$1,157,953 as shown on Audit Exhibit RHB-3, the Net Under-collection is reduced to \$13,716,065.

**Q. DO YOU HAVE ANY ADDITIONAL FINDINGS?**

A. Yes. Due to uncertainty as to the propriety and accuracy of the tank level adjustments discussed on page

1        13, line 15 through page 14, line 11, and their possible  
2        impact on both the cost of gas for the period and the  
3        balance in the deferred account, ORS is unable to  
4        determine whether the reported under-collection is  
5        fairly and accurately stated. ORS reserves its audit  
6        rights and opinion on this issue until documentation is  
7        provided by the Company in support of these adjustments.

8    **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

9    **A.** Yes, it does.

**PIEDMONT NATURAL GAS COMPANY, INC.,  
ACCOUNT #253.04 ANALYSIS SUMMARY  
APRIL 2005- MARCH 2006**

**AUDIT EXHIBIT RHB-1**

Month	Beginning Balance	Billed vs Filed Rates	Proration Adjustment	Demand True-up	Negotiated Losses	Sec Mkt Sharing	WNA	Interest	Annual Line Loss Adjustment	Supplier Refunds	Hedging Activity Transfer	Ending Balance	Calculated Interest
	\$	\$	\$	\$	\$	\$	\$	\$	\$		\$	\$	
Apr-05	(8,331,349)	(549,939)	278,682	537,370	(38,819)	(84,376)	(3,493)	(51,222)				(8,243,146)	(51,222.00)
May-05	(8,243,146)	(322,570)		(617,064)	(46,839)	121,456	(599)	(53,473)				(9,162,236)	(53,791.00)
Jun-05	(9,162,236)	70,722		(851,189)	(40,267)	348,221	(64)	(57,622)				(9,692,435)	(58,271.00)
Jul-05	(9,692,435)	(424,487)		(1,239,567)	(36,828)	586,855	(27)	(62,540)				(10,869,029)	(63,547.00)
Aug-05	(10,869,029)	(395,738)		(1,006,121)	(11,687)	645,623	10	(68,374)				(11,705,316)	(69,769.00)
Sep-05	(11,705,316)	(2,157,322)	(82,656)	(956,619)	(1,961)	489,829	(10)	(79,152)				(14,493,207)	(80,970.00)
Oct-05	(14,493,207)	(1,888,600)	(325,328)	(1,005,545)	(83,402)	115,190	(13)	(95,470)	632,670			(17,143,705)	(97,778.00)
Nov-05	(17,143,705)	(1,366,941)	66,541	(509,627)	(226,019)	228,375	(376,352)	(110,161)				(19,437,890)	(113,061.00)
Dec-05	(19,437,890)	5,685,605		735,739	(367,858)	393,473	609,100	(95,057)				(12,476,887)	(98,641.00)
Jan-06	(12,476,887)	(1,085,654)	(669,809)	1,292,878	(206,281)	296,085	(1,158,644)	(77,689)		78,030		(14,007,971)	(81,862.00)
Feb-06	(14,007,971)	(726,061)	(880,398)	937,900	(146,250)	205,099	(1,056,444)	(87,360)				(15,761,485)	(92,014.00)
Mar-06	(15,761,485)	536,607	438,428	407,384	(139,958)	242,220	(553,712)	(89,496)		45,994		(14,874,018)	(94,693.00)
Total		(2,624,378)	(1,174,540)	(2,274,461)	(1,346,169)	3,588,050	(2,540,249)	(927,616)	632,670	124,024			(955,619.00)
					(1)				(2)		(3)		
Over (Under) Collection (Including Interest at actual overall Booked and Actural Overall Rated of Return of 7.44%)												(14,874,018)	
Account Number 191001 - Deferred Account - Hedging Program (See Audit Exhibit RHB-3)												1,157,953	
Total Over (Under) Collection including Hedging Activity												(13,716,065)	

- Notes:
- (1) Includes Capacity Release Credits of \$1,682,253
  - (2) Annual line loss true-up as required by Piedmont's Gas Recovery Mechanism
  - (3) No transfer was made during the review period

6,444,295.86

**PIEDMONT NATURAL GAS COMPANY, INC.  
STORAGE INVENTORY ACTIVITY  
FOR TWELVE MONTHS ENDED MARCH 31, 2006**

Transco GSS						Transco GSS					Transco GSS		
Injections						Withdrawals					Balance		
Gross DTs	Inj. Fuel	Price	Commodity	Injection		W/D Charge	DTs	Price	Amount		DTs	Amount	Wtd. Cost
Beg. Bal.											1,354,702	\$ 8,858,935	\$
Apr-05	75,837	(4,370)	\$ 7.5327	\$ 571,257	\$ 2,173	\$ 2,805	(99,765)	\$ 6.6138	\$ (662,631)		1,326,404	8,772,539	6.6138
May-05	770,874	(44,405)	6.9511	5,358,422	22,085	0	0	0.0000	0		2,052,873	14,153,046	6.8943
Jun-05	585,468	(33,067)	6.2930	3,684,350	16,793	0	0	0.0000	0		2,605,274	17,854,189	6.8531
Jul-05	620,220	(32,931)	6.9725	4,324,484	17,854	12	(435)	6.9526	(3,036)		3,192,128	22,193,503	6.9526
Aug-05	613,131	(32,555)	7.9471	4,872,613	17,650	11	(397)	7.1789	(2,861)		3,772,307	27,080,916	7.1789
Sep-05	402,572	(21,375)	11.2710	4,537,389	11,588	48	(1,718)	7.6152	(13,131)		4,151,786	31,616,810	7.6152
Oct-05	0	0	0.0000	0	0	651	(23,237)	7.6152	(177,605)		4,128,549	31,439,856	7.6152
Nov-05	208,069	(11,046)	12.8723	2,678,327	6,009	6,256	(221,065)	7.8889	(1,750,216)		4,104,507	32,380,232	7.8889
Dec-05	105,940	(5,625)	11.3105	1,198,234	3,060	11,960	(422,616)	7.9864	(3,387,140)		3,782,206	30,206,346	7.9864
Jan-06	295,857	(15,709)	11.5209	3,408,539	8,545	22,763	(637,142)	8.2768	(5,296,260)		3,425,212	28,349,933	8.2768
Feb-06	152,975	(8,183)	8.6852	1,328,614	4,451	36,191	(1,279,284)	8.2766	(10,670,522)		2,290,720	19,048,667	8.3156
Mar-06	149,294	(7,927)	7.4459	1,111,628	4,312	30,345	(1,072,249)	8.2911	(8,920,469)		1,359,838	\$ 11,274,483	\$ 8.2910
	<u>3,980,237</u>	<u>(217,193)</u>	<u>\$ 8.3095</u>	<u>\$ 33,073,857</u>	<u>\$ 114,520</u>	<u>\$ 111,042</u>	<u>(3,757,908)</u>	<u>8.2184</u>	<u>\$ (30,883,871)</u>				

  

Transco WSS						Transco WSS					Transco WSS		
Injections						Withdrawals					Balance		
Gross DTs	Inj. Fuel	Price	Commodity	Injection		W/D Charge	DTs	Price	Amount		DTs	Amount	Wtd. Cost
Beg. Bal.											4,297,068	\$ 25,220,184	\$ 5.8692
Apr-05	504,417	(8,203)	\$ 7.2160	\$ 3,639,868	\$ 3,034	\$ 2,334	(386,866)	\$ 6.0216	\$ (2,331,886)		4,406,416	26,533,534	6.0216
May-05	1,026,484	(17,453)	6.5459	6,719,251	6,458	0	0	0.0000	0		5,415,447	33,259,243	6.1416
Jun-05	0	0	0.0000	0	0	2,229	(388,304)	6.1416	(2,387,037)		5,027,143	30,874,435	6.1415
Jul-05	144,271	(2,454)	6.9472	1,002,279	908	794	(124,095)	6.1671	(766,100)		5,044,865	31,112,316	6.1671
Aug-05	131,809	(1,864)	8.6830	1,144,498	832	1,501	(234,474)	6.2336	(1,463,118)		4,940,336	30,796,029	6.2336
Sep-05	379,016	(6,444)	10.9493	4,149,969	2,384	1,571	(245,480)	6.5780	(1,616,338)		5,067,428	33,333,615	6.5780
Oct-05	837,935	(14,245)	13.0899	10,968,519	5,272	507	(79,201)	7.5211	(596,186)		5,811,917	43,711,727	7.5211
Nov-05	501,667	(8,522)	14.1612	7,104,184	3,156	1,530	(239,031)	8.0600	(1,928,120)		6,066,031	48,892,477	8.0600
Dec-05	237,357	(4,039)	11.3505	2,694,117	1,493	3,879	(606,048)	8.1894	(4,967,048)		5,693,301	46,624,918	8.1894
Jan-06	659,868	(9,241)	10.8747	7,175,847	3,417	826	(129,073)	8.4812	(1,095,520)		6,214,855	52,709,488	8.4812
Feb-06	271,238	(4,402)	8.7157	2,364,042	1,596	2,001	(323,719)	8.4297	(2,728,847)		6,157,972	52,348,280	8.5009
Mar-06	254,781	(2,298)	7.1911	1,832,156	850	6,702	(1,047,227)	8.4520	(8,857,865)		5,363,228	\$ 45,330,123	\$ 8.4520
	<u>4,948,843</u>	<u>(79,165)</u>	<u>9.8598</u>	<u>\$ 48,794,730</u>	<u>\$ 29,400</u>	<u>\$ 23,874</u>	<u>(3,803,518)</u>	<u>7.5557</u>	<u>\$ (28,738,065)</u>				



**PIEDMONT NATURAL GAS COMPANY, INC.**  
**STORAGE INVENTORY ACTIVITY**  
**FOR TWELVE MONTHS ENDED MARCH 31, 2006**

ESS						ESS					ESS		
Injections						Withdrawals					Balance		
Gross DTs	Inj. Fuel	Price	Commodity	Injection		W/D Charge	DTs	Price	Amount		DTs	Amount	Wtd. Cost
Beg. Bal.											698,762	\$ 1,390,095	\$ 1.9894
Apr-05	0	0	\$ 0.0000	\$ 0	\$ 0	0	0	\$ 0.0000	\$ 0		698,762	1,390,095	1.9894
May-05	0	0	0.0000	0	0	0	0	0.0000	0		698,762	1,390,095	1.9894
Jun-05	0	0	0.0000	0	0	0	0	0.0000	0		698,762	1,390,095	1.9894
Jul-05	0	0	0.0000	0	0	0	0	0.0000	0		698,762	1,390,095	1.9894
Aug-05	0	0	0.0000	0	0	0	0	0.0000	0		698,762	1,390,095	1.9894
Sep-05	0	0	0.0000	0	0	0	0	0.0000	0		698,762	1,390,095	1.9894
Oct-05	0	0	0.0000	0	0	0	0	0.0000	0		698,762	1,390,095	1.9894
Nov-05	0	0	0.0000	0	0	0	0	0.0000	0		698,762	1,390,095	1.9894
Dec-05	0	0	0.0000	0	0	0	0	0.0000	0		698,762	1,390,095	1.9894
Jan-06	0	0	0.0000	0	0	0	0	0.0000	0		698,762	1,390,095	1.9894
Feb-06	0	0	0.0000	0	0	0	0	0.0000	0		698,762	1,390,095	1.9894
Mar-06	0	0	0.0000	0	0	0	0	0.0000	0		698,762	\$ 1,390,095	\$ 1.9894
	<u>0</u>	<u>0</u>	<u>0.0000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>0</u>	<u>0.0000</u>	<u>\$ 0</u>				
Columbia FSS						Columbia FSS					Columbia FSS		
Injections						Withdrawals					Balance		
Gross DTs	Inj. Fuel	Price	Commodity	Injection		W/D Charge	DTs	Price	Amount		DTs	Amount	Wtd. Cost
Beg. Bal.											1,118,600	\$ 7,122,525	\$ 6.3674
Apr-05	770,603	0	\$ 7.7431	\$ 5,966,856	\$ 0	\$ 291	(9,985)	\$ 6.9285	\$ (69,472)		1,879,218	13,020,200	6.9285
May-05	185,676	0	7.1447	1,326,599	0	8	(275)	6.9480	(1,919)		2,064,619	14,344,888	6.9480
Jun-05	0	0	0.0000	0	0	0	0	0.0000	0		2,064,619	14,344,888	6.9480
Jul-05	1,027,464	0	7.3757	7,578,266	0	0	0	0.0000	0		3,092,083	21,923,154	7.0901
Aug-05	1,027,472	0	8.0896	8,311,837	0	0	0	0.0000	0		4,119,555	30,234,991	7.3394
Sep-05	667,857	0	11.4387	7,639,416	0	0	0	0.0000	0		4,787,412	37,874,407	7.9112
Oct-05	359,889	0	13.5382	4,872,249	0	0	0	0.0000	0		5,147,301	42,746,656	8.3047
Nov-05	22,637	(35)	14.8495	336,494	0	2,670	(74,116)	8.3333	(620,304)		5,095,787	42,465,516	8.3335
Dec-05	632	(13)	(114.4822)	(72,344)	0	5,656	(154,149)	8.3182	(1,287,899)		4,942,257	41,110,929	8.3182
Jan-06	519	(11)	10.7232	5,570	0	21,775	(1,667,490)	8.3185	(13,892,765)		3,275,275	27,245,509	8.3185
Feb-06	35	(1)	7.9940	281	0	33,100	(1,013,031)	8.3185	(8,460,034)		2,262,278	18,818,856	8.3185
Mar-06	1,342	(26)	7.4620	10,014	0	53,221	(1,384,811)	8.3179	(11,572,211)		878,783	\$ 7,309,880	\$ 8.3182
	<u>4,064,126</u>	<u>(86)</u>	<u>8.8519</u>	<u>\$ 35,975,238</u>	<u>\$ 0</u>	<u>\$ 116,721</u>	<u>(4,303,857)</u>	<u>8.3424</u>	<u>\$ (35,904,604)</u>				

**PIEDMONT NATURAL GAS COMPANY, INC.**  
**STORAGE INVENTORY ACTIVITY**  
**FOR TWELVE MONTHS ENDED MARCH 31, 2006**

Hattiesburg						Hattiesburg					Hattiesburg		
Injections						Withdrawals					Balance		
Gross DTs	Used/Injection	Price	Commodity	Injection		W/D Charge	DTs	Price	Amount		DTs	Amount	Wtd. Cost
Beg. Bal.											202,321	\$ 1,363,435	\$ 6.7390
Apr-05	3,206	0	\$ 7.3623	\$ 23,604	\$ 32	\$ 0	0	\$ 0.0000	\$ 0		205,527	1,387,071	6.7489
May-05	0	0	0.0000	0	0	0	0	0.0000	0		205,527	1,387,071	6.7489
Jun-05	0	0	0.0000	0	0	0	0	0.0000	0		205,527	1,387,071	6.7489
Jul-05	0	0	0.0000	0	0	153	(15,270)	6.7489	(103,055)		190,257	1,284,169	6.7497
Aug-05	0	0	0.0000	(2,599)	3	0	0	0.0000	0		190,257	1,281,573	6.7360
Sep-05	0	0	0.0000	0	0	0	0	0.0000	0		190,257	1,281,573	6.7360
Oct-05	60,000	0	13.5342	812,052	600	0	0	0.0000	0		250,257	2,094,225	8.3683
Nov-05	75,000	0	14.3291	1,074,683	750	600	(60,000)	10.1036	(606,216)		265,257	2,564,042	9.6663
Dec-05	0	0	0.0000	0	0	0	0	0.0000	0		265,257	2,564,042	9.6663
Jan-06	75,000	0	12.0096	900,720	750	555	(55,487)	9.9704	(553,225)		284,770	2,912,842	10.2288
Feb-06	30,000	(59)	8.0659	241,977	300	959	(95,912)	10.1034	(969,042)		218,799	2,187,036	9.9956
Mar-06	90,000	(666)	7.4204	667,836	900	1,460	(146,307)	9.2354	(1,351,201)		161,826	\$ 1,506,031	\$ 9.3065
	<u>333,206</u>	<u>(725)</u>	<u>11.1591</u>	<u>\$ 3,718,273</u>	<u>\$ 3,335</u>	<u>\$ 3,727</u>	<u>(372,976)</u>	<u>9.6058</u>	<u>\$ (3,582,739)</u>				
Total Underground						Total Underground					Total Underground		
Injections						Withdrawals					Balance		
Gross DTs	Used/Injection	Price	Commodity	Injection		W/D Charge	DTs	Price	Amount		DTs	Amount	Wtd. Cost
Beg. Bal.											7,671,453	\$ 43,955,174	\$ 5.7297
Apr-05	1,354,063	(12,573)	\$ 7.5341	\$ 10,201,585	\$ 5,239	\$ 5,430	(496,616)	\$ 6.1697	\$ (3,063,989)		8,516,327	51,103,439	6.0006
May-05	1,983,034	(61,858)	6.7595	13,404,272	28,543	8	(275)	6.9782	(1,919)		10,437,228	64,534,343	6.1831
Jun-05	585,468	(33,067)	6.2930	3,684,350	16,793	2,229	(388,304)	6.1473	(2,387,037)		10,601,325	65,850,678	6.2116
Jul-05	1,791,955	(35,385)	7.2016	12,905,029	18,762	959	(139,800)	6.2388	(872,191)		12,218,095	77,903,237	6.3761
Aug-05	1,772,412	(34,419)	8.0830	14,326,349	18,485	1,512	(234,871)	6.2416	(1,465,979)		13,721,217	90,783,604	6.6163
Sep-05	1,449,445	(27,819)	11.2642	16,326,774	13,972	1,619	(247,198)	6.5918	(1,629,469)		14,895,645	105,496,500	7.0824
Oct-05	1,257,824	(14,245)	13.2394	16,652,820	5,872	1,158	(102,438)	7.5537	(773,791)		16,036,786	121,382,559	7.5690
Nov-05	807,373	(19,603)	13.8643	11,193,688	9,915	11,056	(594,212)	8.2544	(4,904,856)		16,230,344	127,692,362	7.8675
Dec-05	343,929	(9,677)	11.1070	3,820,007	4,553	21,495	(1,182,813)	8.1518	(9,642,087)		15,381,783	121,896,330	7.9247
Jan-06	1,031,244	(24,961)	11.1425	11,490,676	12,712	45,919	(2,489,192)	8.3713	(20,837,770)		13,898,874	112,607,867	8.1019
Feb-06	454,248	(12,645)	8.6625	3,934,914	6,347	72,251	(2,711,946)	8.4177	(22,828,445)		11,628,531	93,792,934	8.0658
Mar-06	495,417	(10,917)	7.3103	3,621,634	6,062	91,728	(3,650,594)	8.4101	(30,701,746)		8,462,437	\$ 66,810,612	\$ 7.8950
	<u>13,326,412</u>	<u>(297,169)</u>	<u>9.1219</u>	<u>\$ 121,562,098</u>	<u>\$ 147,255</u>	<u>\$ 255,364</u>	<u>(12,238,259)</u>	<u>8.0983</u>	<u>\$ (99,109,279)</u>				

**PIEDMONT NATURAL GAS COMPANY, INC.**  
**STORAGE INVENTORY ACTIVITY**  
**FOR TWELVE MONTHS ENDED MARCH 31, 2006**

LNG						LNG						LNG		
Gross DTs	Used/Injection	Injections Price	Commodity	Injection		Expense	Withdrawals Deferred	DTs	Price	Amount	Adjustments To Tank Level	DTs	Balance Amount	Wtd. Cost
Beg. Bal.												833,254	\$ 5,228,492	\$ 6.2748
Apr-05	20,981	0	\$ 7.5327	\$ 158,044	\$ 0	13,646	(14,592)	\$ 6.3217	\$ (92,246)	0		839,643	5,307,936	6.3217
May-05	94,019	0	6.9511	653,535	0	87,520	(7,490)	6.4788	(48,526)	13,867		940,039	6,000,465	6.3832
Jun-05	0	0	0.0000	0	0	11,663	(13,260)	6.3956	(84,806)	0		926,779	5,927,322	6.3956
Jul-05	0	0	0.0000	0	0	11,414	(13,025)	6.4079	(83,463)	0		913,754	5,855,273	6.4079
Aug-05	0	0	0.0000	0	0	11,692	(15,568)	6.4207	(99,958)	(24,716)		873,470	5,767,007	6.6024
Sep-05	6,460	0	11.2710	72,811	0	11,533	(10,300)	6.6498	(68,493)	0		869,630	5,782,858	6.6498
Oct-05	37,210	0	14.4704	538,444	0	22,291	(12,830)	6.9953	(89,749)	0		894,010	6,253,844	6.9953
Nov-05	48,182	0	12.8723	620,213	0	118,251	(7,763)	7.4213	(57,612)	0		934,429	6,934,696	7.4213
Dec-05	0	0	0.0000	0	0	24,728	(20,886)	7.4478	(155,554)	0		913,543	6,803,870	7.4478
Jan-06	258	0	11.5209	2,972	0	44,255	(17,853)	7.4974	(133,850)	0		895,948	6,717,247	7.4974
Feb-06	0	0	0.0000	0	0	14,111	(14,090)	7.5131	(105,860)	0		881,858	6,625,498	7.5131
Mar-06	0	0	0.0000	0	0	22,338	(17,120)	7.5384	(129,058)	0		864,738	\$ 6,518,778	\$ 7.5384
	<u>207,110</u>	<u>0</u>	<u>9.8789</u>	<u>\$ 2,046,019</u>	<u>\$ 0</u>	<u>393,442</u>	<u>(164,777)</u>	<u>6.9741</u>	<u>\$ (1,149,175)</u>	<u>(10,849)</u>				

  

LNG NCNG						LNG NCNG						LNG NCNG		
Gross DTs	Used/Injection	Injections Price	Commodity	Injection		W/D Charge	Withdrawals	DTs	Price	Amount	Adjustments To Tank Level	DTs	Balance Amount	Wtd. Cost
Beg. Bal.												474,392	\$ 2,534,317	\$ 5.3422
Apr-05	0	0	\$ 7.5327	\$ 0	\$ 0	0	(13,491)	\$ 5.3422	\$ (72,072)	0		460,901	2,462,245	5.3422
May-05	131,902	0	6.9511	916,864	0	0	(26,843)	5.7002	(153,010)	0		565,960	3,226,099	5.7002
Jun-05	77,844	0	6.2930	489,872	0	0	(22,589)	5.7719	(130,381)	0		621,215	3,585,590	5.7719
Jul-05	0	0	0.0000	0	0	0	(13,657)	5.7719	(78,827)	0		607,558	3,506,763	5.7719
Aug-05	0	0	0.0000	0	0	0	(14,255)	5.7719	(82,278)	125,246		718,549	3,424,485	4.7658
Sep-05	204,102	0	11.2710	2,300,434	0	0	(29,403)	6.2049	(182,443)	0		893,248	5,542,476	6.2049
Oct-05	108,133	0	14.4704	1,564,728	0	0	(23,253)	7.0974	(165,036)	0		978,128	6,942,168	7.0974
Nov-05	47,346	0	12.8723	609,452	0	0	(18,737)	7.3640	(137,979)	0		1,006,737	7,413,641	7.3640
Dec-05	0	0	0.0000	0	0	0	(13,931)	7.3640	(102,588)	0		992,806	7,311,053	7.3640
Jan-06	0	0	0.0000	0	0	0	(13,552)	7.3640	(99,797)	0		979,254	7,211,256	7.3640
Feb-06	0	0	0.0000	0	0	0	(11,985)	7.3640	(88,258)	0		967,269	7,122,998	7.3640
Mar-06	0	0	0.0000	0	8,832	0	(13,560)	7.3732	(99,981)	0		953,709	\$ 7,031,849	\$ 7.3732
	<u>569,327</u>	<u>0</u>	<u>10.3304</u>	<u>\$ 5,881,350</u>	<u>\$ 8,832</u>	<u>\$ 0</u>	<u>(215,256)</u>	<u>6.4697</u>	<u>\$ (1,392,650)</u>	<u>125,246</u>				

**PIEDMONT NATURAL GAS COMPANY, INC.**  
**STORAGE INVENTORY ACTIVITY**  
**FOR TWELVE MONTHS ENDED MARCH 31, 2006**

Pine Needle						Pine Needle					Pine Needle		
		Injections				Withdrawals				Adjustments	Balance		
Gross DTs	Used/Injection	Price	Commodity	Injection		W/D Charge	DTs	Price	Amount	To Tank Level	DTs	Amount	Wtd. Cost
Beg. Bal.											406,885	\$ 2,549,699	\$ 6.2664
Apr-05	377,726	(6,573)	\$ 7.6403	\$ 2,885,940	\$ 0	\$ 51	(26,886)	\$ 6.9863	\$ (187,886)	0	751,152	5,247,804	6.9863
May-05	390,445	(5,425)	7.0769	2,763,140	0	0	0	7.0508	0	0	1,136,172	8,010,944	7.0508
Jun-05	377,847	(5,247)	6.4477	2,436,244	0	0	0	6.9243	0	0	1,508,772	10,447,188	6.9243
Jul-05	390,445	0	7.3268	2,860,712	0	0	0	7.0070	0	0	1,899,217	13,307,900	7.0070
Aug-05	384,149	(5,338)	8.0622	3,097,086	0	0	0	7.2014	0	0	2,278,028	16,404,986	7.2014
Sep-05	277,090	0	11.2651	3,121,447	0	0	0	7.6421	0	0	2,555,118	19,526,433	7.6421
Oct-05	89,398	0	14.9506	1,336,554	0	0	0	7.8892	0	0	2,644,516	20,862,987	7.8892
Nov-05	0	0	0.0000	0	0	72	(40,014)	7.8892	(315,749)	0	2,604,502	20,547,310	7.8892
Dec-05	0	(10,516)	0.0000	0	0	183	(101,424)	7.9211	(803,576)	0	2,492,562	19,743,917	7.9211
Jan-06	12,420	(173)	11.6717	144,963	0	65	(35,852)	7.9403	(284,740)	0	2,468,957	19,604,205	7.9403
Feb-06	0	0	0.0000	0	0	0	0	7.9403	0	0	2,468,957	19,604,205	7.9403
Mar-06	62,975	(875)	7.1503	450,290	0	600	(333,355)	7.9234	(2,641,904)	0	2,197,702	\$ 17,413,191	\$ 7.9234
	<u>2,362,495</u>	<u>(34,147)</u>	<u>8.0831</u>	<u>\$ 19,096,376</u>	<u>\$ 0</u>	<u>\$ 971</u>	<u>(537,531)</u>	<u>7.8765</u>	<u>\$ (4,233,855)</u>	<u>0</u>			
Total LNG						Total LNG					Total LNG		
		Injections				Withdrawals				Adjustments	Balance		
Gross DTs	Used/Injection	Price	Commodity	Injection		W/D Chg/Exp Def	DTs	Price	Amount	To Tank Level	DTs	Amount	Wtd. Cost
Beg. Bal.											1,714,531	\$ 10,312,508	\$ 6.0148
Apr-05	398,707	(6,573)	\$ 7.6346	\$ 3,043,984	\$ 0	\$ 13,697	(54,969)	\$ 6.4073	\$ (352,204)	0	2,051,696	13,017,985	6.3450
May-05	616,366	(5,425)	7.0308	4,333,539	0	87,520	(34,333)	5.8700	(201,536)	13,867	2,642,171	17,237,508	6.5240
Jun-05	455,691	(5,247)	6.4213	2,926,116	0	11,663	(35,849)	6.0026	(215,187)	0	3,056,766	19,960,100	6.5298
Jul-05	390,445	0	7.3268	2,860,712	0	11,414	(26,682)	6.0824	(162,290)	0	3,420,529	22,669,936	6.6276
Aug-05	384,149	(5,338)	8.0622	3,097,086	0	11,692	(29,823)	6.1106	(182,236)	100,530	3,870,047	25,596,478	6.6140
Sep-05	487,652	0	11.2676	5,494,692	0	11,533	(39,703)	6.3203	(250,936)	0	4,317,996	30,851,767	7.1449
Oct-05	234,741	0	14.6533	3,439,726	0	22,291	(36,083)	7.0611	(254,785)	0	4,516,654	34,058,999	7.5408
Nov-05	95,528	0	12.8723	1,229,665	0	118,323	(66,514)	7.6877	(511,340)	0	4,545,668	34,895,647	7.6767
Dec-05	0	(10,516)	0.0000	0	0	24,911	(136,241)	7.7929	(1,061,718)	0	4,398,911	33,858,840	7.6971
Jan-06	12,678	(173)	11.6686	147,935	0	44,320	(67,257)	7.7076	(518,387)	0	4,344,159	33,532,708	7.7190
Feb-06	0	0	0.0000	0	0	14,111	(26,075)	7.4446	(194,118)	0	4,318,084	33,352,701	7.7240
Mar-06	62,975	(875)	7.1503	450,290	8,832	22,938	(364,035)	7.8864	(2,870,943)	0	4,016,149	\$ 30,963,818	\$ 7.7098
	<u>3,138,932</u>	<u>(34,147)</u>	<u>8.6092</u>	<u>\$ 27,023,745</u>	<u>\$ 8,832</u>	<u>\$ 394,413</u>	<u>(917,564)</u>	<u>7.3844</u>	<u>\$ (6,775,680)</u>	<u>114,397</u>			

**PIEDMONT NATURAL GAS COMPANY, INC.**  
**STORAGE INVENTORY ACTIVITY**  
**FOR TWELVE MONTHS ENDED MARCH 31, 2006**

Line Pack NCNG						Line Pack NCNG					Line Pack NCNG		
		Injections				Withdrawals					Balance		
Gross DTs	ed/Injection	Price	Commodity	Injection		W/D Charge	DTs	Price	Amount	DTs	Amount	Wtd. Cost	
Beg. Bal.										195,085	\$ 1,301,467	\$ 6.6713	
Apr-05	73,481	0	\$ 7.5327	\$ 553,510	0	\$ 0	(71,582)	\$ 6.9070	\$ (494,415)	196,984	1,360,562	6.9070	
May-05	67,012	0	6.9511	465,807	0	0	(62,044)	6.9182	(429,231)	201,952	1,397,138	6.9182	
Jun-05	53,737	0	6.2930	338,167	0	0	(78,549)	6.7868	(533,095)	177,140	1,202,210	6.7868	
Jul-05	62,943	0	6.9725	370,388	0	0	(53,122)	6.5502	(347,961)	186,961	1,224,637	6.5502	
Aug-05	62,497	0	7.9471	496,670	0	0	(79,845)	6.9002	(550,945)	169,613	1,170,362	6.9002	
Sep-05	84,825	0	11.2710	956,063	0	0	(82,134)	8.3573	(686,422)	172,304	1,440,003	8.3573	
Oct-05	83,943	0	14.4704	1,214,689	0	0	(75,172)	10.3599	(778,774)	181,075	1,875,918	10.3599	
Nov-05	0	0	12.5837	0	0	0	0	10.3599	0	181,075	1,875,918	10.3599	
Dec-05	0	0	11.2405	0	0	0	0	10.3599	0	181,075	1,875,918	10.3599	
Jan-06	0	0	10.6258	0	0	0	0	10.3599	0	181,075	1,875,918	10.3599	
Feb-06	0	0	8.6216	0	0	0	0	10.3599	0	181,075	1,875,918	10.3599	
Mar-06	0	0	7.2340	0	0	0	0	10.3599	0	181,075	1,875,918	10.3599	
	<u>488,438</u>	<u>0</u>	<u>8.9987</u>	<u>\$ 4,395,294</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>(502,448)</u>	<u>7.6045</u>	<u>\$ (3,820,843)</u>	<u>181,075</u>	<u>\$ 1,875,918</u>	<u>\$ 10.3599</u>	

**PIEDMONT NATURAL GAS COMPANY, INC.**  
**RISK MANAGEMENT - HEDGING PROGRAM**  
**GAIN/(LOSS) RECOGNIZED AND OTHER EXPENSES**  
**FOR TWELVE MONTHS ENDED MARCH 31, 2006**

Month	Type of Contract	No. of Contracts	Gain or (Loss)	Trading Fees	Gain or (Loss) Recognized	Interest	RMI Fee	Real-Time Pricing Fee	Net Gain or (Loss)
Apr-05	Futures	38	\$ 32,300	\$ (760)	\$ 31,540	\$ (3,399)	\$ 0	\$ 0	\$ 28,141
May-05		0	0	0	0	(2,944)	(395)	(60)	(3,399)
Jun-05	Call Options/Futures	183	(327,470)	(3,660)	(331,130)	(8,390)	(395)	(60)	(339,975)
Jul-05	Call Options/Futures	124	(331,440)	(2,480)	(333,920)	(6,483)	(2,370)	0	(342,773)
Aug-05	Call Options/Futures	267	(328,320)	(5,340)	(333,660)	(6,500)	(395)	(119)	(340,674)
Sep-05	Call Options/Futures	242	1,522,000	(4,840)	1,517,160	(6,311)	(395)	(60)	1,510,394
Oct-05	Call Options/Futures	169	847,100	(3,380)	843,720	(6,275)	(396)	0	837,049
Nov-05	Call Options/Futures	164	700,450	(3,280)	697,170	9,554	(395)	(60)	706,269
Dec-05	Call Options/Futures	158	414,960	(3,160)	411,800	9,640	(395)	0	421,045
Jan-06	Call Options	79	(242,660)	(1,580)	(244,240)	20,101	(395)	0	(224,534)
Feb-06	Call Options	227	(645,030)	(4,540)	(649,570)	11,503	(396)	0	(638,463)
Mar-06	Call Options/Futures	<u>158</u>	<u>135,793</u>	<u>(3,160)</u>	<u>132,633</u>	<u>10,353</u>	<u>0</u>	<u>(60)</u>	<u>142,926</u>
	Totals	<u>1809</u>	\$ <u>1,777,683</u>	\$ <u>(36,180)</u>	\$ <u>1,741,503</u>	\$ <u>20,849</u>	\$ <u>(5,927)</u>	\$ <u>(419)</u>	\$ <u>1,756,006</u>

Decrease to the Cost of Gas (Apr 05 to Mar 06)	\$ 1,756,006
Increase to the Cost of Gas from Prior Year Not Transferred	<u>598,053</u>
Cummulative Decrease to Cost of Gas (Apr 04 to Mar 06)	\$ <u>1,157,953</u>